

## Past as global trade governance prelude: reconfiguring debate about reform of the multilateral trading system

Article (Accepted Version)

Wilkinson, Rorden (2018) Past as global trade governance prelude: reconfiguring debate about reform of the multilateral trading system. *Third World Quarterly*, 39 (3). pp. 418-435. ISSN 0143-6597

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## Past as global trade governance prelude

### *Reconfiguring debate about reform of the multilateral trading system*<sup>1</sup>

Claiming that the multilateral trading system is dysfunctional, outmoded, and in need of repair is far from revelatory. We need look no further than the inability of World Trade Organization (WTO) member states to agree a far-reaching agreement on trade during the Doha round, the tortuous passage of the negotiations themselves, the change in system-governance that resulted from Doha's abandonment, or the history of asymmetrical deals that have resulted from previous rounds of multilateral negotiations, for ample illustration.<sup>2</sup> Equally, it is folly to expect that such a claim is sufficiently novel to hold attention, generate contemplation and cause fresh thinking.<sup>3</sup> That the primary means of governing global trade is in need of reform is news to no one—particularly to those that have long been seeking to make the system fit-for-purpose, or else seek its abandonment. That a clarion call for institutional reform has been audible for some considerable time—but has yet to be heeded—is only marginally more newsworthy.<sup>4</sup>

Yet, such is the degree of fatigue surrounding global trade governance that even those that were once deeply critical of the iniquitous functioning of the multilateral trading system have now added their chest fall to the collective sigh of relief exuded when it appears to function in *any* fashion—as it appeared to do at the conclusion of the WTO's Bali (December 2013) and Nairobi (December 2015) ministerial conferences.<sup>5</sup> The result—to reverse George Orwell's observation of Bertrand Russell's *Power: A New Social Analysis*—is that we have ceased to treat 'the restatement of the obvious' as our 'first duty' allowing instead system atrophy to become acceptable *and* institutional malaise normal.<sup>6</sup>

Part of the problem lies with the narrowness of the terrain upon which the debate has unfolded. With a few notable interventions that have sought to challenge the WTO's existence or else seek its abandonment,<sup>7</sup> the majority of contributions have sought to offer specific measures to address problems perceived with particular aspects of its

operation; the need to embrace variable geometry and plurilateralism in negotiating; the desirability of clearly delineating (and indeed limiting) the WTO's remit to avoid mission creep and thus negating some of the pressures for reform; embedding the WTO more coherently in the broader pantheon of global governance institutions; and opening up decision-making to take account of changes in global economic geography.<sup>8</sup>

This tendency for 'inside the box' thinking has a real consequence: it puts forward solutions that, though addressing aspects of poor operation, would ultimately perpetuate a problematic system. This would not alter the fact that future trade negotiations would most likely produce outcomes that are not markedly different from those of previous rounds. Of course, this does not rule out reforms of value being implemented in the near future. It does mean, however, that in the absence of a fundamental departure from existing ways of operating, few prospects exist for the realisation of development gains for all or for a new era in multilateral trade. More significantly—for the purposes of this paper—because these piecemeal suggestions keep the institution largely intact they do not convey a sense of the pressing need for reform.

Other factors have also rendered less-than-urgent the need to take reform of the multilateral trading system seriously. At play here is a reluctance to press for substantive reform despite the system's imperfections because the WTO is widely held to be preferable to bilateral and/or mega-regional forms of governance;<sup>9</sup> it is perceived to be a bulwark against protectionism;<sup>10</sup> and other events in global commerce and world politics more generally have served to divert attention—including, but not limited to, the Trump administration's position on trade and the UK's exit from the European Union (EU).<sup>11</sup> Yet, settling for a system that represents a lesser evil and which is perceived to be functioning—however imperfectly—as a means of mitigating commercial discrimination is not reason enough to persist with an outmoded form of governance, particularly one that has consistently delivered asymmetrical trade gains,<sup>12</sup> and which, in turn, has contributed to widening inequalities between developed and developing states.<sup>13</sup>

Opting for system maintaining rather than system transforming reform—whether it is the product of political opportunity, expediency, possibility or otherwise—has a profound effect: it limits the realm of what is understood to be viable by locking in place behaviour that can only ever produce slight variations of the status-quo. Just as allowing third party *amicus curiae* submissions<sup>14</sup> does little to nullify the power political aspects of WTO dispute settlement processes, facilitating effective forms of trade-led development is unlikely to result from a persistence with modes of operation that have been found not to serve the interests of developing country members. What is needed instead, is a clear departure from existing debate about the minor inadequacies of trade governance and the small pool of ideas that have so far had any purchase, toward a conversation that acknowledges reform as essential and urgent and which sets about working out how that reform can be brought about.

How then can we re-orientate debate about the problems of trade governance such that it once again becomes a serious item on global agendas and conducted in such a way that we understand substantive reform to constitute more than just minor fettling? The answer probably does not lie in regurgitating well-known critiques of the functioning of the multilateral trading system or of the travails of the now-set-aside Doha round. One place where purchase may be found is in changing the shape of debate such that the problems of the multilateral trading system currently constructed are set within a broader historical context which is able to use an analysis of the past as a basis for projecting forward to illuminate the problems of the future. Such an approach ought to be able to illustrate the dramatic variance that exists between the speed with which real world circumstances change, the relative sloth of the processes by which institutional evolution is brought about, and the factors that combine to produce repetitive forms of institutional behaviour and outcome that do little other than preserve the status quo. This, in turn, reveals not only how out-of-step with circumstance, need and aspiration the existing institutional architecture is—and *will become*—but also the urgency with which a programme of substantive reform is required.

In other words, one way of illustrating and reconstituting the extent to which the multilateral trading system is in need of fundamental reform is to explore the changed

nature of the political and economic environment in which it operates and to do so alongside an examination of its own evolution. These two aspects—or speeds of change (one circumstantial, the other institutional)—can then be used to project forward to consider the likely future shape of the global environment and of trade governance. In so doing, the problems and shortcomings of global trade governance, not only historically and contemporarily but also future-wise, can be highlighted. This, in turn, can provide a platform upon which a more effective future-orientated system of trade governance can be imagined, debated and ultimately built.

The purpose of this paper, then, is to advance the ‘pressing need’ side of this equation by exploring the capacity of the multilateral system to govern global trade—in terms of its appropriateness as a tool for managing trade in given political and economic circumstances—in the past and the present as well as by imagining how it might do so in the future. The reason for this is simple and worth restating: extant debate has so far failed to establish the pressing need for reform of the multilateral trading system. Rather, a relatively low level of ambition has combined with recent events to push issues of reform into the background. Thus, my purpose is to offer a different way of explaining why reform of the multilateral trading system is pressing and ought to be brought back to the fore. It is on this platform that debate can then begin about the form that a future and thoroughly reimagined multilateral trading system might take.<sup>15</sup>

In pursuit of its aims, the paper explores the capacity of the multilateral system to govern global trade at three moments in time. It does this to offer three clear snapshots of trade governance in operation as a means of highlighting how out of step with changing economic and political circumstances it has become. Rather than begin with the creation of the multilateral trading system and pick two moments that follow thereafter, the paper takes a century as its analytical timeframe and lays this either side of the current moment so that it reflects back 50 years on the present day and half-a-century into the future. The reasons for this choice of timeframe are as follows. As is well known the General Agreement on Tariffs and Trade (GATT—and the WTO’s predecessor institution) emerged out of the post-war failure to establish the International Trade Organization (ITO). Beginning this study in 1947 at the GATT’s

creation would only highlight the system's 'birth defects', its happenstantial beginnings, and its *sui generis* character, all of which are covered amply elsewhere.<sup>16</sup> It would tell us little of the system once it had become established and was in operation—that is, how the GATT actually governed global trade and its congruity with political-economic need at the time.

The use of a century as an analytical timeframe—with the present day serving as the fulcrum—thus gives us a neat entry point to thinking about the fit between the GATT and contemporary political and economic circumstance half-a-century ago (some 20 years after the conclusion of the *General Agreement*), before considering what its successor the WTO is like today and what may lie 50 years ahead. By using these three discrete moments in time we are able to compare and contrast how circumstances and the institution have changed as well as the effect on the fit between global trade governance and the environment in which it is operating. And by focusing on three discrete periods rather than on every single institutional and circumstantial development across a 100 year time period—a worthy but lengthier and impossible task, especially projecting forward—we are able to see with greater clarity the consequences of change.

Thus, the paper begins by exploring the global political and economic environment, and the status and evolution of the system of trade governance, a half century ago—a point by which the system had been up-and-running for almost 2 decades and the anomalies of its institutional birth overcome.<sup>17</sup> It then moves on to consider how those circumstances have changed as well as what kind of evolution trade governance has undergone to make sense of the present. Thereafter, the paper imagines what global political and economic circumstances might look like 50 years from now setting these alongside the projected likely future evolution of the multilateral trading system. The purpose here is not to predict the future but rather to illustrate and better appreciate the likely disjuncture between political and economic circumstance and institutional development, thereby underscoring the necessity of reform and establishing foundations for renewed debate.

### *Global trade governance circa 1966*

World order looked dramatically different in late 1960s than it does today, though some things have endured. In the two decades that had passed since the end of the Second World War, the United States had consolidated its position as the most dominant state in the Western world and was locked in a cold war with the Soviet Union. Europe was reconstructing into two blocs following dramatically different political-economic models—one socialist, the other market orientated—with few substantive relations beyond minor diplomatic courtesy, and some low level (albeit rising) commercial interaction.<sup>18</sup> The pre-war unravelling of the European empires had continued apace, often without thought for the borders and states that decolonisation was to create. A world institutional architecture had been created under the auspices of the United Nations (UN), overseen by a security council of four permanent and self-declared nuclear members (the fifth, China—also a nuclear weapons state—was precluded from taking up its seat until 1971) though it had been largely paralysed by the cold war. Part of this wider UN institutional architecture consisted of economic institutions designed to manage exchange rates (the International Monetary Fund) and oversee loans for reconstruction (and increasingly development—the World Bank). And a series of regional institutions have been created to do in continental groups what the UN's architects had hoped would be possible on a global scale.

While Europe had enjoyed one of the longest periods of peace since before the First World War, cold war rivalries were fought out in proxy conflicts throughout the decolonising world. A series of countries had risen to the fore and enjoyed considerable economic growth. Some of these states had done so by banding together to overcome weakness and as a means of preventing further hostilities—as Europe had in the form of the European Economic Community (EEC); others were beginning to 'emerge' under the broad umbrella of US military protection, as with Japan and South Korea; others still had become wealthy on the back of fossil fuel extraction, as was beginning to be the case with the members of the Organization of the Petroleum Exporting Countries (OPEC). The UK and France (and to a lesser extent the Netherlands) had reconstituted relations with their former colonies in intergovernmental organisations (notably in the form of the Commonwealth and the

French Union and French Community). The UK was not a member of the EEC but was the biggest economy in the European Free Trade Area. The result was a world divided into four distinct regions: the advanced capitalist countries; a Sino-Soviet bloc (albeit profoundly fractured by ideological differences); a group of largely Asian countries developing on the back of strong economic intervention and political illiberalism; and a large group of economies—some of which were independent states, others of which were not—largely cut off from the global economy other than via processes of commodity extraction.

By 1966, the centrepiece of the multilateral trading system—the GATT—had risen from the ashes of the ITO project and been up and running for almost two decades. Yet, its contribution to global economic governance was far from clear-cut. Many of the trade restrictions that had existed among the industrialised countries in manufactured products had been swept aside. And a clear view had emerged that the international trading system was highly disadvantageous to developing countries and it already required a substantial overhaul if it was to have a positive impact on realising economic gains for all countries.<sup>19</sup>

In reflecting on the GATT's contribution to post-war European recovery Douglas Irwin put it,

One is left with tremendous uncertainty about the precise role of the GATT ... Its role was almost surely secondary to sound domestic macro-economic and microeconomic policies. After all, the GATT did not achieve much for an entire decade after the 1947 tariff cuts and the 1949 membership expansion. These initial tariff cuts did not fully take hold until other trade restrictions were eliminated over the course of the 1950s. And the trade liberalization of the 1950s that was of substantial importance took place outside of the GATT.<sup>20</sup>

Instead, Irwin finds that the GATT's major contribution was in establishing itself as the primary reference point for global trade governance and in serving as a ratchet against backsliding on the tariff liberalisation that had been achieved. As he argues, it was not until the mid-1960s (during the Kennedy round of trade negotiations, 1964-7) that a claim could be made that the GATT had overseen significant cuts in barriers to trade.<sup>21</sup>



Where the GATT's contribution is less ambiguous is in fostering economic development and prosperity in the non-Western world. Here the record is clear. The GATT offered very little of use to the world's newly independent poor. This is not surprising as the GATT was not designed to be a development institution. Its genesis from a provisional and, for some commentators, a 'surprising' and 'accidental'<sup>22</sup> agreement designed to kick-start the process of tariff liberalisation in the post-war era dominated by colonial states ensured that its initial evolution reflected the interests of its original contracting parties (particularly the United States and to a lesser extent the United Kingdom) and the purposes for which it was deployed. Agriculture and, later, textiles and clothing, were excluded from its remit, with negotiations focused on freeing up trade in those products deemed drivers of post-war recovery: manufactures, semi-manufactured and capital goods.<sup>23</sup> What contribution the GATT had made to prosperity was a result of any increases in the volume and value of trade in these goods and not in those that were of interest to much of what would become known as the developing world—a state of affairs which, in turn, added weight to calls for its reform.<sup>24</sup>

Part of the problem was that even by the late 1960s, after an initial expansion of the number of contracting parties had occurred, the GATT was far from a genuinely universal—that is, truly 'global'—institution. Not only was the process of accession heavily policed, its circuit of expansion first took in the remainder of allied and non-socialist industrial countries that had not signed on in 1947 before extending outwards to include the remaining 'advanced' economies. Only when decolonisation was in full swing in the late 1950s and 1960s—when newly-independent states were seeking to join international institutions as markers of their independence and former colonial states were keen to sponsor their entry—did GATT membership expand. Even then, however, expansion was relatively slow, particularly compared with other global institutions. Moreover, the GATT's essential character altered very little as the focus of operations remained on liberalising those areas of trade of interest to its core members. The result was that while the number of signatories to the *General Agreement* may have grown from 23 to 69 by 1966 it had not shed its origins as a 'trader's club' focused on pursuing trade advantages in areas of interest to the leading industrial states.<sup>25</sup> It was, as David

Howell put it, a ‘piece of machinery suited ... to the trade policies and objectives of the already industrialized countries’.<sup>26</sup>

Three reasons explain this less-than-universal membership, which are relevant here and which combine to underline the character of the multilateral trading system to explain some of why the institution has evolved in the way that it has and why it has failed to keep pace with changes in political-economic circumstance. First, during the cold war the GATT operated more like a mega-regional trade institution than a universal endeavour. Although accession to the *General Agreement* was open to the Soviet Union and its satellite states, given the centrality of trade liberalisation to Western capitalism, the participation of these states was limited.<sup>27</sup> As Francine McKenzie puts it, the GATT was ‘an organization that came to be closely associated with the members and cause of the West’.<sup>28</sup> Some of the Eastern bloc states did accede to the GATT but they remained nominal participants at best; and US support for the accession of these countries was more geostrategic, designed to open up fractures in the Soviet bloc, than it was economic. Pre-socialist Czechoslovakia was a founding member of the GATT. Yugoslavia—a market socialist outlier and a rare Eastern European exception in that it was not a member of the Council for Mutual Economic Aid (CMEA, also Comecon)—acceded in 1966. Poland followed in 1969 with Romania (1971) and Hungary (1973) acceding soon thereafter. Indeed, even the Soviet Union attempted to join the GATT, lodging an application to take part in the Uruguay round—which was, unsurprisingly, opposed by the United States.<sup>29</sup> The result was that without Soviet bloc membership and the concessions, politicking and institutional adjustments that opposition might have brought, the GATT contracting parties were able to concentrate on the task at hand, with institutional membership having the added effect of contributing to Western bloc cohesion.

Second, in contrast to the UN which required that the ‘peace-loving’ credentials of a state be established before granting membership,<sup>30</sup> accession to the GATT was governed by a procedure whereby existing signatories would agree a ‘price’ for entry with a candidate state.<sup>31</sup> The value of this ‘price’ or ticket to entry was determined by the relative significance of the candidate state and the likely threat it posed to existing

GATT contracting party markets, with the ticket to entry being more costly the greater the significance and competitiveness of a prospective signatory. The price of accession also depended on various political considerations. Many newly independent states acceded relatively automatically under the sponsorship of their former colonial powers with very little demanded of them—so called ‘grandfathering’. Others had accession processes that were more drawn out and involved much more costly tickets to entry, as was the case with Japan. What was common to both groups, however, were the relative disadvantages that accession brought. For newly independent states, accession was often presented as a *fait accompli* with little regard for—or involvement of—constituencies representing domestic economic interests, or for issues of key economic importance. For countries like Japan, the terms of accession were so unfavourable that upon acceding to the GATT 40 per cent of the contracting parties operationalised a non-application clause nullifying many of the benefits of membership.<sup>32</sup>

Third, although the ranks of the GATT were added to by those new signatories that sought to accede in the post-war years, a large proportion were not actually involved in the *General Agreement’s* trade barrier reducing activities. Nor was it the case that the contracting parties as a whole were bound by the outcome of each round of negotiations. Indeed, once the second round had been completed in 1949 it was not until the Uruguay round (1986-1994) that all of the contracting parties agreed to be bound by the results of the negotiations. Even then not all the contracting parties that agreed to be bound by the results were actively engaged in the discussions. Whereas, successive rounds saw the United States and the other leading industrial countries exchange concessions further stimulating trade in manufactured, semi-manufactured and industrial goods but not in agriculture or textiles and clothing. Those countries that chose not, or were unable to participate in the negotiations did not benefit from the concession exchanging activities of their industrial counterparts. The result was to widen the gap between the opportunities afforded to the industrial states and their developing counterparts while at the same time excluding the latter from any say in the negotiations themselves (and as a consequence in the institution’s on-going development).

The disparity in the price of accession is worth dwelling on a little more because it gives us an insight into both the plurilateral character of the GATT—that is, as an agreement that was relevant at that time only to a particular subset of members—and the reasons why a distinct disjuncture has occurred between the pace of institutional evolution and changes in political and economic circumstances globally as well as among participants. By 1966 the European and North American economies were booming, with trade in manufactures driving prosperity. Allied security was secured through an institutional apparatus that comprised both global and regional security and economic institutions. European reconstruction continued apace, and peace—at least at home—continued to endure. In this the GATT played a role. Not only was it an important component of the Western economic architecture, the programme of liberalisation agreed under its auspices had begun to bear fruit in terms of the trade opportunities that were opened up and the areas wherein protection was allowed to persist (namely agriculture, and textiles and clothing).

Matters were quite different outside of the European and North American core. The focus on the liberalisation of manufactured, semi-manufactured and capital goods proved to be of little relevance to the largely agricultural and primary producing economies that had managed to accede to the GATT. Indeed, only 14 per cent of all developing country exports at this time were from manufactured goods, with textiles and clothing from India, Pakistan and Hong Kong comprising a significant proportion thereof.<sup>33</sup> Moreover, GATT negotiations had actively excluded areas of economic importance to the newly independent world to the extent that agricultural markets remained highly protected and trade in textiles and clothing subject to significant quantitative restrictions and other protective measures.

The bias in the manner in which the GATT's rules were applied, as well as the residual disadvantages facing newly independent countries in a post-colonial world, did not go unnoticed. Pressure was exerted both among the contracting parties as well as in the UN more generally for a dramatic reorientation towards the needs of developing countries. Among GATT contracting parties, this pressure resulted in the adoption in 1964 (in force on a *de facto* basis from 8 February 1965) of Part IV of the *General*

*Agreement*. Outside, it culminated in the establishment of the United Nations Conference on Trade and Development (UNCTAD) which was, as the inaugural issue of the *Development Policy Review* put it, set up to have ‘a serious debate about the merits of the present system of world trade – symbolised by the GATT with its most favoured nation clause – as a means of promoting economic development’.<sup>34</sup> Both endeavours were ultimately to come in for much criticism. As Reginald Green put it, both the GATT negotiations and the first UNCTAD were ‘an elaborate sham, and the goals and aspirations of 1960-64 ... vain illusions on the part of Africa and the Tiers Monde [Third World] and pious hypocrisy on the part of the industrial world’.<sup>35</sup>

Unsurprisingly, neither Part IV nor UNCTAD resulted in much that was of substance. As T. N. Srinivasan put it, under Part IV the ‘less developed countries achieved little by way of precise commitments ... but a lot in terms of verbiage’.<sup>36</sup> Part IV merely committed developed countries (and their less developed counterparts in relation to trade among themselves) to: (i) give high priority to the reduction and elimination of barriers to trade for goods of export interest to their developing counterparts; (ii) refrain from introducing or increasing customs duties or non-tariff barriers on those goods; and (iii) avoid imposing or making any adjustments in existing fiscal measures that would hamper demand for products from developing countries. It also removed the requirement for reciprocity for any concessions made during trade negotiations; and it put into place a mechanism for reporting and surveillance. Nothing in Part IV was compelling and it had little impact as a result. The debate did, however, serve to further entrench growing developing country hostility towards the shape and direction of multilateral trade regulation.

UNCTAD fared little better and failed to produce a significant institutional challenge to the GATT. While debate during the first conference covered market access, preferences, commodity policy and financial matters as well as some discussion of the possibility of subsuming the GATT into a radically different trade machinery developed under UNCTAD auspices,<sup>37</sup> it proved not to be a forum for negotiations between participating states seeking reductions in impediments to trade or a vehicle for reversing the relatively poor trade performance of developing countries. Rather, it

proved too unwieldy for that purpose, particularly compared with the relatively streamlined (albeit acutely asymmetrical) fashion the GATT had approached trade liberalisation. What the conference resulted in instead was the creation of a formal and permanent presence for UNCTAD along with a secretariat to oversee its functioning; a decision to initiate detailed fact-finding exercises on issues of economic development; and an agreement that the conference should be reconvened at regular intervals with a Trade and Development Board meeting twice a year in between. It did not result in powers to go beyond the issuing of recommendations.

Where UNCTAD was successful was in consolidating growing solidarity among developing countries particularly among the Group of 77 (G77) providing a periodic high profile forum for the discussion of trade issues of interest to developing countries, and instigating a mechanism for monitoring and reporting on development issues. It, however, was less successful in ensuring substantive engagement from particular industrial countries. As J. C. Mills wrote in his commentary on the first UNCTAD,

The United States delegation appeared to lack both an understanding of the basic needs of the less developed countries (the L.D.C.'s) and any desire to gain one. An American observer remarked of the chief delegate of his country: "He had nothing to offer and so he offered nothing." The United States became clearly identified as the least willing of the industrial countries to even consider a "new" international division of labour which would permit the developing countries to industrialize.<sup>38</sup>

Thus, UNCTAD's lack of significant powers and the lacklustre participation of the developed states served—rather ironically—to secure the GATT's role as the primary international trade body. It also served to take developing country eyes off the GATT for a significant period during which the manner of the *General Agreement's* deployment was consolidated. Needless to say, this was to their disadvantage.

The result was that for all of the pressure that was brought to bear on the institution, the 1960s drew to a close with the GATT's essential character largely unchanged. The system remained firmly anchored in the needs of the *General Agreement's* architects with only a few small concessions having been made to the political-economic make-up of

developing states. Already the GATT was in need of thorough reform—a necessity widely recognised and which had first been taken seriously by the contracting parties during the mid-1950s<sup>39</sup>—and the institution was a long way from being fit for purpose. Reform was, however, a long time coming, and what resulted proved to be too little and too late.

#### *Global trade governance circa 2016*

If a disjuncture between political and economic circumstances and the direction of the multilateral trading system's institutional evolution had been evident by the late 1960s, it has become a seismic fracture by late 2010s. In the near three decades since the end of the cold war, the United States has consolidated its position as the only world superpower. A series of large developing and middle-income countries—China, India, Brazil, Russia and, to a lesser extent, South Africa (the BRICS)—have 'risen' to challenge existing global power relations, and possibly the United States itself. Relations between the United States and Russia—the successor state to the Soviet Union—cooled noticeably following the latter's annexation of Crimea and tensions in Syria and elsewhere. US and western power has been challenged ideologically by Islamist movements and materially by terrorist attacks in major population centres stretching back almost two decades; and secular politics has taken a backseat to resurgent religiosity. Fragile economic recovery in the industrial states following the financial crisis of 2008 has been set back by worries about the dissolution of the EU following the 23<sup>rd</sup> June 2016 referendum result on UK membership—though the terms on which the UK would exit were thrown into some turmoil by the 8 June 2017 UK general election result that saw the ruling Conservative party's majority substantially cut.

More broadly, technological innovation and advance has fundamentally transformed the global economy. Much of the developed world is now service orientated, though significant pockets of manufacturing have proved tenacious with signs of a return in other areas. Trade has been transformed by innovations in transportation and logistics—including digital and drone delivery—and production further internationalised through elaborate and evolving global value chains.<sup>40</sup> Developing country economies

remain concentrated in—among other things—the production of agricultural goods and in the extraction of natural resources. The means of doing commerce has altered fundamentally with a large number of transactions now being conducted electronically. Growing microbial resistance has eroded the effectiveness of many antibiotic medicines. Over the past 30 years a series of health pandemics—ranging from HIV/AIDS to SARS, Ebola and Zika—have severely tested global and transnational response and governance mechanisms. International negotiations have failed to result in the implementation of effective mechanisms for stemming the rate of increase of global warming or to mitigate the onset of a climate crisis. Some modest improvements have been made in tackling global poverty, albeit that the ultra poor—particularly those living in rural areas—remain largely untouched by poverty reduction programmes.

Yet, for all this circumstantial change, almost 70 years since the multilateral trading system was first established surprisingly little has altered. Trade negotiations remain the preserve of the most significant economic states, with those that are neither principal suppliers nor major importers playing much more than a bit part. The core architecture for governing global trade has evolved from the provisional and specific GATT, and replaced—institutionally, but not in terms of the way trade is governed—by the WTO. Bilateral trade deals have grown considerably in number with a huge proliferation of regional trade agreements. Some of these regional agreements—most recently in the Atlantic and Pacific—have been considerable in size and have developed in part as negotiating levers in multilateral negotiations. And public interest in the content and direction of the global and regional trade agendas has been noticeable with considerable concern being periodically registered.

The establishment of the WTO brought with it a deepening and widening of global trade regulation, extending the arenas of economic activity subject to trade rules while at the same time putting in place more substantive dispute settlement procedures and surveillance mechanisms. Yet the core means of governing global trade—in terms of the principles around which it is organised and the manner in which negotiations are conducted—persist. Significant tensions remain between developed and developing members of the multilateral trading system. The last round under GATT auspices



managed to result in the negotiation of a universal agreement, albeit that the promise of establishing a new institution (the WTO) was crucial to the brokering of a deal.<sup>41</sup> Without a comparable institutional—or similar—pay off, the Doha round has floundered on tensions between members and has been set aside, with the conclusion of the Nairobi ministerial conference resulting in a return to the conclusion of deals that comprise a plurilateral element (with the exception of the issue-specific Trade Facilitation Agreement) and a small package of largely unsubstantive measures nominally intended to help the poorest.<sup>42</sup>

The end of the cold war saw a number of successor states created, almost all of which have since joined the multilateral trading system. The new crop of post-cold war states has contributed to an increase in WTO membership—by 29 July 2016—to 164. WTO members are now a much more diverse group than existed under the GATT with myriad crosscutting interests. While these differences have been mediated by coalitions formed on particular issues or in opposition to particular developments, they combine to make the governance of global trade more complex. This complexity, combined with the difficulties of moving such a large group of members together in concert, has made multilateral trade negotiations more difficult to conclude. When taken together with persisting tensions over the way commercial opportunities have been distributed since the system was created, this has ensured that rounds have tended towards long periods of stasis punctuated by moments of crisis. Moreover, while these moments of crisis have occasionally resulted in forward institutional momentum, more often than not they have resulted in deadlock and inertia, or else any developments that have occurred have been regressive, more recently moving the multilateral system back to older, less inclusive forms of trade governance—as happened with the setting aside of the Doha round in December 2015.<sup>43</sup>

The result is that the global trade governance of the late 2010s is in an unhappy place. Persistent tensions have rendered the WTO's negotiating function all but inert. This inertia has halted the agreement of trade opportunities of real value to the developing world. The re-emergence of plurilateral agreements and modes of negotiating threaten to roll back the gains made in improving the participation of all WTO members in

negotiations. And alternative forms of governance—bilateral, regional and mega-regional—pose a fundamental challenge to the WTO's place as centre-point of global trade governance.

#### *Global trade governance circa 2066*

Projecting forward 50 years is a precarious exercise and it is important to emphasise that the purpose here is not to predict the future. What can be said with some certainty, however, is that the speed of global circumstantial change—already far outpacing institutional developments—is likely to exceed significantly the future evolution and development of the multilateral trading system. World order-wise, the rate of climate related incidents and possible catastrophes will increase in frequency. This, in turn, will accelerate demand for goods and services that in some way help roll back the likelihood, as well as alleviate the consequences, of these events—though we might be sceptical about their capacity to make a significant difference. If research and development continues to lag in antimicrobial resistance then health pandemics that could have been more easily controlled 50 years ago are likely to become more consequential in the future. Conversely, if research and development improves in this area, markets for new pharmaceutical products are likely to develop. These products are likely to be expensive as the costs of further research and development are passed on to consumers and the length of patent rights fully exploited. This, in turn, is likely to ensure that a substantial health gap will continue to develop between those that can afford and/or have access to these medicines and those that cannot. Assuming that there is a possibility that shortfalls in access to medicines like these may underpin the likelihood of future pandemics, then it is also likely that some kind of waiver for generic drug production will have to be agreed in much the same way that one was eventually negotiated for antiretroviral medicines.<sup>44</sup> Moreover, given that pharmaceutical companies will be aware of this as a possible eventuality, profit shortfalls will be added into purchasing prices further adding to costs and health gap consequences.

Production in the late 2060s is also likely to have made extensive use of robotic technologies and automation. Certainly, employment opportunities are likely to open

up in other sectors that will absorb some of the reduction in labour intensity in sectors using these greater technologies. However, given that the global population is likely to exceed 10 billion by 2066, and developing and middle income countries as a broad group will continue to be locked into particular industries and forms of production, under and unemployment are likely to be issues with which the world of the future will have to contend. Equally, it is likely that much of this production will be shifted out of the old industrial country heartlands which will have become almost exclusively service economies. Nonetheless, it will probably remain the case that it is multinational corporations from the industrial world that will be producing in middle income and other countries. This will, in turn, exacerbate worries about military applications resulting from roboticisation ensuring that a technology regime may be put in place wherein cutting edge technology is not transferred for security reasons and which results in super-sized versions of the general and security exception clauses of the GATT (articles XX and XXI respectively).

Likewise, agriculture will probably continue to become highly mechanised (with unemployment resulting). Many developing countries may have become competitive in this regard, but it will probably be Australian, North American and European agricultural multinationals that, on current projections, own operations. Developing country exports may have surged as a result but the profits will inevitably flow out of country. Moreover, this will likely act as a brake on export diversification. This will be exacerbated because agricultural barriers are likely to remain highly protective of European and Greater North American (US, Canada and Mexico) agriculture industries.

Production and extraction may well have changed considerably in the future such that existing rules of origin—that is, those rules that govern the origin of a product so that the tariff or duty due can be worked out—will have to change. The extraction of raw material from under the seabed will bring the Law of the Sea together with trade rules in a potentially conflictual manner. Equally, space exploration may have resulted in the extraction of raw materials from ‘heavenly bodies’. Moreover, it is possible that

orbiting vessels may be established that produce goods and services that are not tied to or associated with particular geographic jurisdictions.

Competition for energy and other resources such as water may become more intense, with the latter particularly being subject to competition between states and other groups (especially in areas of the earth where water shortages are most pronounced). Inevitably, this will not only increase prices and stimulate trade it will also drive desalination and other processes to render saline useable for human, animal and crop consumption to meet demand. It may also see a shift towards greater extraction of groundwater. As with the Law of the Sea, and production and extraction beyond the earth, this will put pressure on trade rules especially around rules of origin.

The services sector will also likely accelerate and require different and new forms of regulation. Increasing demand for, and competition in education will see markets globalise further, especially in the tertiary sector—albeit that much of the delivery will be digital. The same will also likely be the case for health as competition across borders accelerates and demand rises caused by, among other things, an ageing population (the United Kingdom, for instance, is projected to have a population of more than half a million aged over 100 by 2066). More generally, service and e-commerce agreements will have failed to keep pace with real world change.

All of this will be exacerbated by any changes in global power relations. While some have been quick to suggest that a significant shift away from the United States and Europe towards the BRICS is nascent, the recent economic performance of this latter group of countries has raised notes of caution. In the absence of a major global or regional conflict it is nonetheless reasonable to suppose that China's continued development will cement its place as the world's second major power. Inevitably, others will rise and fall making more complex and changed the map of world power. Some of the developments we may be seeing the genesis of now—the UK's exit from the European Union and its consequences, and attempts to establish an Islamist Caliphate in Syria and Iraq to name but two. Whatever the outcome, it will inevitably affect the capacity of multilateral trade rules to govern global trade.

Irrespective of whether any of these developments are actually realised—to reiterate, the purpose here is not accurate predication—the problem is that if we look back to how global trade governance evolved in the first 50 years of our study we see that circumstance fast outstripped institutional change rendering that system less than useful. Multilateral trade rules remained focused on liberalising trade in some goods, with aspects of governing services and various trade-related measures along with more extensive dispute settlement and surveillance procedures with the creation of the WTO—far from the extensive system that is required to govern commercial activity on this planet let alone deal with all of the issues that are and should be related to trade and its governance. Equally, on past experience we are likely to see trade rounds—if they still exist—as piecemeal exercises wherein agreements are reached among subsets of members in plurilateral deals, rather than universal single undertakings that were once the preferred ambition but which was only realised once at the conclusion of the Uruguay round. Also likely is that as a bureaucracy the WTO will continue to evolve bolstering its legitimacy through a continual upscaling of its research and information gathering capacity. We have already seen this trend emerge as the WTO responds to the secretariat’s perceived need to enhance its credibility in the face of member and public criticism.<sup>45</sup> We need look no further than the World Bank, IMF and International Labour Organisation for confirmation that this is a probable developmental path. Additional pressure will inevitably come from member states questioning the value of the funds they contribute to the WTO, which in turn will cause further research and technical expertise development in an attempt to continue to justify the organisation’s existence. The result will be that the WTO will become a large bureaucracy that produces lots of reports and data, and which occasionally settles minor trade disputes among countries that are willing to adhere to DSB rulings, but which oversees little in terms of meaningful trade openings or trade facilitating agreements, particularly for the world’s poorest and least developed.

## **Conclusion**

Over the course of the century with which this paper is concerned, what we are likely to see, then, is that institutional development not only lags behind the exigencies of global

political-economic circumstance it will also serve to further distort and inhibit the trade possibilities and opportunities available to developing countries. While it may have been ‘too facile a view’, as one commentator put it in 1966,<sup>46</sup> that the ‘development [of] the newly emerging countries [would] be less arduous than it was for [the] industrial countries simply because the latecomers on the development scene [could] draw on a store of experience and, through aid programmes and private investment activities, the actual resources and wealth of the advanced countries’ the hopes of modernisation thinkers<sup>47</sup> so dominant at the beginning of our period of study were also dashed by the distortions exerted from the very outset by the institutional architecture for governing global trade. Projecting forward into the future suggests that there is little hope this might change anytime soon.

In 1966 George Woods, then president of the World Bank, argued that unless the UN’s first development decade received greater ‘sustenance, it may ... recede into history as the decade of disappointment’.<sup>48</sup> He continued:

As the gap widens intolerably, one is bound to wonder when the fine sentiments so eloquently and so often expressed by leaders in all the industrial nations will give way to positive action to help raise the living standards of developing countries at a much faster rate. For how much longer can the rich nations justify the relatively low place that development finance has hitherto been accorded in their list of priorities?<sup>49</sup>

If we were to substitute ‘decade’ for ‘century’ and ‘development finance’ for the ‘multilateral trading system’ Woods could very well have been talking about global trade governance. Given that the inadequacies of multilateral trading system have been obvious for some considerable time, and on current projections they are likely to get worse, we should return, as Orwell suggested at the outset of this paper,<sup>50</sup> to our ‘first duty’: that is, to restate the obvious—that the system is broken—and begin a debate about how it can be fixed. If we do not, we risk not only the trade architecture but also the possibilities that ought to be open to all of the world’s population. Clearly, the task ahead is to design a system capable of governing global trade attune to changed and changing circumstance. But we first must grasp that the need for reform is urgent.

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<sup>1</sup> I am grateful to the two anonymous reviewers for their comments, which helped to strengthen aspects of the argument. An earlier version of this paper was presented at the Institute of Development Studies 50<sup>th</sup> anniversary conference, Brighton, UK, 5-6 July 2016.

<sup>2</sup> Martin and Mercurio, "Doha dead and buried in Nairobi;" Wilkinson, Hannah and Scott, "The WTO in Nairobi;" Jones, *The Doha blues*; Subramanian and Wei, "The WTO promotes trade, strongly but not evenly"; Muzaka and Bishop "Doha stalemate;" Flentø and Ponte, "Least-developed countries in a world of global value chains: are WTO trade negotiations helping?"

<sup>3</sup> Loveday, "Suggestions for the Reform of the United Nations Economic and Social Machinery," is an early intervention.

<sup>4</sup> For example, Meier, "UNCTAD proposals for international economic reform;" LeQuesne, *Reforming World Trade*; Ismail, *Reforming the World Trade Organization*; also Deere-Birkbeck, "Reinvigorating Debate on WTO Reform;" Hoekman, "Proposals for WTO Reform."

<sup>5</sup> Wilkinson, Hannah and Scott, "The WTO in Bali;" Wilkinson, Hannah and Scott, "The WTO in Nairobi."

<sup>6</sup> Orwell, "Review of Bertrand Russell's Power."

<sup>7</sup> Bello, "Why Reform of the WTO is the Wrong Agenda;" Peet, *Unholy Trinity*.

<sup>8</sup> For exemplars see, Bhagwati, "Reshaping the WTO;" Draper and Dube, "Plurilaterals and the Multilateral Trading System;" Elsig and Cottier, "Reforming the WTO;" Saner, "Plurilateral Agreements;" Jansen, "Internal measures in the multilateral trading system;" Steger, *Redesigning the World Trade Organization for the twenty-first century*; and Warwick Commission, *The Multilateral Trade Regime*. Also, Wilkinson, *What's Wrong with the WTO and How to Fix it*, 107-131.

<sup>9</sup> Bhagwati, *The World Trading System*; Bacchus, "The Bicycle Club;" Blustein, *Misadventures*. Also, Bown, "Mega-Regional Trade Agreements and the Future of the WTO."

<sup>10</sup> Osakwe, "Future of the Multilateral Trading System," 2; also Capling and Higgott, *Introduction*.

<sup>11</sup> Irwin, "The False Promise of Protectionism;" Trommer, "Post-Brexit Trade Policy Autonomy as Pyrrhic Victory".

<sup>12</sup> Ostry, "Asymmetry in the Post-Doha Trading System;" Subramanian and Wei, "The WTO promotes trade, strongly but not evenly;" and Bilal, Lombaerde and Tussie (eds.), *Asymmetric Trade Negotiations*."

<sup>13</sup> Singer *One World: The Ethics of Globalization*; Pogge, *World Poverty and Human Rights*.

<sup>14</sup> See Smith, "Inequality in international trade?"

<sup>15</sup> Wilkinson, *What's Wrong with the WTO and How to Fix it*; Bernstein and Hannah, "The WTO and (In)Coherence in Global Economic Governance;" Bronkers, "More power to the WTO?"

<sup>16</sup> For instance Curzon and Curzon, "GATT: Trader's Club;" Jackson, *The Jurisprudence of GATT and the WTO*.

<sup>17</sup> Jackson, *The Jurisprudence of GATT and the WTO*, 401

<sup>18</sup> Myrdal, "Twenty years of the United Nations economic commission for Europe;" Kaser, "Trends in East-West Trade."

<sup>19</sup> Howell "New Paths for World Trade", 294. Also, Gardner, "GATT and the United Nations Conference on Trade and Development."

<sup>20</sup> Irwin, "The GATT's Contribution," 147.

<sup>21</sup> Irwin, "The GATT's Contribution," 147-9.

<sup>22</sup> Jackson, "The puzzle of the GATT;" Maciel, "Brazil's proposals for the reform of the GATT system," 163.

<sup>23</sup> Ram, "Trade between developed and developing countries".

<sup>24</sup> Gardner, "GATT and the United Nations Conference on Trade and Development;" Proehl, "Geneva proposals to reform international trade;" Dam, "Regional economic arrangements and the GATT;" Mills, "Canada at UNCTAD."

<sup>25</sup> Curzon and Curzon, "GATT."

<sup>26</sup> Howell "New Paths for World Trade", p. 297.

<sup>27</sup> Indeed, provisions had been made for state trading in the Havana Charter (some of which were carried over into the GATT), the agreement negotiated for a full-blown International Trade Organization (ITO) to be established as the third of three major post-war organisations.

<sup>28</sup> McKenzie, "GATT and the Cold War," 79.

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- <sup>29</sup> See Kennedy, "The Accession of the Soviet Union." Also, Grzybowski, K. (1980), "Social Countries in GATT."
- <sup>30</sup> United Nations, "Rules of Procedure," 134-138.
- <sup>31</sup> Copelovitch and Ohls, "Trade, Institutions;" Basra, "Increased Legalization or Politicization."
- <sup>32</sup> Patterson, *Discrimination in International Trade*, 272-300.
- <sup>33</sup> ODI, "Development Policy Review," 54-55.
- <sup>34</sup> ODI, "Development Policy Review," 8; also Wilkinson, *The WTO*, 46-74.
- <sup>35</sup> Green, "UNCTAD and After," 244.
- <sup>36</sup> Srinivasan, *Developing Countries*, 24.
- <sup>37</sup> Wells, "Developing Countries," 74.
- <sup>38</sup> Mills, "Canada at UNCTAD," 214.
- <sup>39</sup> Wilkinson, *The WTO*, 41-43.
- <sup>40</sup> Gereffi, "Global value chains in a post-Washington Consensus world."
- <sup>41</sup> Wilkinson, "Transforming our world by 2030."
- <sup>42</sup> Wilkinson, Hannah and Scott, "The WTO in Nairobi."
- <sup>43</sup> Wilkinson, "Back to the Future;" Wilkinson, *The WTO*.
- <sup>44</sup> Scott and Harman, "Beyond TRIPS."
- <sup>45</sup> Hannah, Scott and Wilkinson, "Reforming WTO-civil society engagement," 436-441.
- <sup>46</sup> ODI, "Development Policy Review," 13.
- <sup>47</sup> For example Rostow, *The Stages*; for a review and critique see Bernstein, "Modernization Theory."
- <sup>48</sup> Woods, "The Development Decade," 206.
- <sup>49</sup> Woods, "The Development Decade," 207.
- <sup>50</sup> Orwell, "Review of Bertrand Russell's Power."